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September 9, 1993

BY OVERNIGHT DELIVERY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: CC Docket No. 93-193

Dear Mr. Caton:

Enclosed for filing please find an original and seven (7) copies of the Rebuttal Case of Rochester Telephone Corporation in the above-docketed proceeding.

To acknowledge receipt, please affix an appropriate notation to the copy of this letter provided herewith for that purpose and return same to the undersigned in the enclosed, self-addressed envelope.

Very truly yours,

Michael J. Shortley, III

cc: ITS, Inc.

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

SEP 10 1993

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In the Matter of

1993 Annual Access Tariff Filings

CC Docket No. 93-193

REBUTTAL CASE OF
ROCHESTER TELEPHONE CORPORATION

Rochester Telephone Corporation ("Rochester") submits this rebuttal to the oppositions submitted to its direct case in this proceeding. The only remaining issue designated for investigation that affects Rochester is whether the Commission should recognize the Transitional Benefit Obligation ("TBO"), plus related accrued interest, associated with the implementation of Statement of Financial Accounting Standards No. 106 ("SFAS-106") as an exogenous event under price cap regulation.^{1/}

Certain parties continue to press the claim that such costs do not so qualify.^{2/} The parties have exhaustively debated this issue. Rather than engage in an extensive

^{1/} Direct Case of Rochester Telephone Corporation at 4-13 (July 26, 1993) ("Rochester Direct Case").

^{2/} See, e.g., [Ad Hoc Telecommunications Users Committee] Comments on Direct Cases at 1-12 (Aug. 24, 1993) ("Ad Hoc"); AT&T Opposition to Direct Cases at 2-19 (Aug. 24, 1993) ("AT&T").

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recapitulation of the issues, Rochester briefly addresses three points that the opponents of exogenous cost treatment continue to misperceive: (1) the costs of post-retirement benefits other than pensions ("OPEBs") are within exchange carriers' control;^{3/} (2) over time, exchange carriers will recover all of their OPEB costs;^{4/} and (3) according exogenous recognition, even to the TBO and related accrued interest, would result in a double-recovery of OPEB-related expenses.^{5/}

These alleged concerns provide no basis for denying exogenous recognizing at least with respect to the TBO, and related accrued interest.^{6/} The first two concerns are red herrings. The third is incorrect.

First, whether exchange carriers exercise control over their underlying OPEB expense is absolutely irrelevant to the outcome of this proceeding. The exogenous event at issue here is not the type and amount of OPEBs that exchange carriers offer their employees. The exogenous event -- over which no

3/ E.g., AT&T at 6-13.

4/ E.g., id. at 15-16.

5/ E.g., Ad Hoc at 6-12; AT&T at 16-19.

6/ As Rochester has previously demonstrated (see Rochester Direct Case at 8 n.12), the Commission should have accorded exogenous recognition to the entire incremental effect of SFAS-106. In this investigation, the Commission should at least recognize costs associated with the TBO, and related accrued interest, as exogenous.

party disputes that exchange carriers lacked control -- was the implementation of SFAS-106. That event changed the manner in which -- and therefore the timing of when -- exchange carriers must account for those costs for financial reporting purposes. The accounting change has a direct effect on exchange carriers' financial reports. It is that effect which qualifies for exogenous treatment.^{7/}

Second, the assertion that, because exchange carriers will recover their OPEB expense over time, this precludes exogenous treatment of all OPEB expense,^{8/} is specious. The proponents of this particular line of reasoning fail to note

^{7/} AT&T also complains that Rochester's recovery of OPEB-related costs incurred in the first six months of 1993 -- prior to the beginning of the 1993-94 tariff year -- constitutes retroactive ratemaking. AT&T at 3-4 n.8. This assertion is incorrect. The Commission has previously permitted exchange carriers to recover amounts nominally attributable to prior tariff periods -- but effectively incurred in the current tariff year -- to be eligible for recovery, e.g., retroactive changes in the calculation of New York State gross receipts taxes. This investigation presents the same issue. The Commission effectively deferred consideration of this issue until now. This is analogous to the decisions of the New York Legislature to decree in July that additional taxes would be due on revenues received in January. To the extent that one qualifies for recovery, the other logically does so as well.

^{8/} E.g., AT&T at 15-16.

that exogenous recognition of the implementation of SFAS-106 will have the same result.^{9/} The difference is the timing of when those expenses are recognized and recovered.^{10/} The implementation of SFAS-106 now requires exchange carriers to recognize OPEB expense earlier than generally accepted accounting principles previously required. The timing change is the event that requires exogenous recognition.

Third, the double-recovery argument is incorrect. The assertion that the expenses associated with the implementation of SFAS-106 are embedded in GNP-PI assumes that the implementation of SFAS-106 affected the economic costs of OPEBs. It did not.^{11/}

^{9/} The subsidiary claim that purports to support this argument -- namely, that actuarial studies are judgmental (e.g., Ad Hoc at 6-7) -- completely disregards the common use of actuarial studies today -- for example, in the calculation of pension expense. This assertion provides no basis for not recognizing a change in an accounting standard as exogenous. See Rochester Direct Case at 13 n.31.

^{10/} The further suggestion (Ad Hoc at 7) that annual true-ups may be necessary is wrong. As described above, other expense components are based upon actuarial studies. The Commission has never suggested that such individual expense items be subject to an annual true-up under price caps.


To ensure revenue-neutrality over time, the Commission need only mandate a negative exogenous adjustment at the expiration of the TBO. See Rochester Direct Case at 12.

^{11/} Id. at 7-8.

Its overall effect on stock prices^{12/} is similarly irrelevant. The assumption that regulators would not permit rate-regulated companies to reflect the incremental costs of the implementation of SFAS-106 in rates at the time it was adopted is fanciful.^{13/} The spectre of double-recovery is illusory.

For the foregoing reasons, the Commission should at least accord exogenous cost treatment to the TBO, and related accrued interest, associated with the implementation of SFAS-106.

Respectfully submitted,


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September 9, 1993

(2664K)

^{12/} E.g., Ad Hoc at 8-11.

^{13/} Rochester Direct Case at 9-10.

Similarly, the assertion that the productivity offsets would be understated if the Commission recognizes the implementation of SFAS-106 as an exogenous event (Ad Hoc at 11-12) is also wrong. See Rochester Direct Case at 10-12.

Certificate of Service

I hereby certify that, on this 9th day of September, 1993, the foregoing Rebuttal Case of Rochester Telephone Corporation was served by first-class mail, postage prepaid, upon the parties on the attached service list.

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